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TO RUEHC/SECSTATE WASHDC IMMEDIATE 8995
INFO RUEHEE/ARAB LEAGUE COLLECTIVE IMMEDIATE
RUCNMEM/EU MEMBER STATES COLLECTIVE IMMEDIATE
RUEHTV/AMEMBASSY TEL AVIV IMMEDIATE 0992
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RHMFISS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 002265

SIPDIS

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NEA/ELA
TREASURY FOR GLASER/SZUBIN/LEBENSON
NSC FOR ABRAMS/DORIN/SINGH
EB/ESC/TFS FOR SALOOM

E.O. 12958: DECL: 05/16/2016
TAGS: [ECON](#) [EFIN](#) [EINV](#) [SY](#)
SUBJECT: DESPITE OBSTACLES, PRIVATE INSURANCE COMPANIES
BULLISH ON MARKET

REF: 05 DMS 05285

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

¶1. (C) Summary: Following the success of Syria's new private banking sector, private insurance companies are expected to begin operations before the end of 2006. Companies anticipate high demand for retail products such as medical and life insurance in an under-insured market that has been dominated by an inefficient public enterprise. Contacts expect private companies to face significant obstacles, however, that will keep them from realizing significant profits in the short- to mid-term, most notably regressive policies of the Ministry of Finance, which is maintaining strict control over the sector's development. End summary.

Private Companies Bullish...

¶2. (SBU) The Ministry of Finance has granted final approval for seven private insurance companies to begin operations in Syria under the SARG's insurance law of May 2005, marking the first time that private insurance companies will be allowed to operate in Syria since the SARG nationalized the sector in the early-1960's. The opening responds to strong interest in Syria's insurance sector among mostly Lebanese and Gulf companies, which hope to mirror the success of Syria's private banks that began operations in 2004. The private companies, which under the law are allowed majority foreign ownership and the ability to repatriate profits, are entering a market with a potentially high demand for health, general and life insurance, contacts contend. The Syrian Insurance Company (SICO), an inefficient state-owned enterprise, has enjoyed monopoly control of the market, providing limited services and selling mostly automotive and maritime insurance to cover Syria's import and transit trade. Contacts say that while some Syrians were able to purchase a broader range of retail products from companies in Lebanon and Jordan through an active "grey market," high transaction costs kept the market to an approximate value of only \$50 million. As a result, the premium value per capita in Syria is one-sixth the regional average, and contacts in the sector expect to reap high future profits.

...But Face Obstacles...

¶3. (C) Contacts expect that the Syrian-Arab Insurance Company, of which the Lebanese Audi-Saradar Group is the principal owner, will be the first to open in July. Antoine

Bechara, a Lebanese national who is spearheading the company's opening, stated that the company has an aggressive agenda to capitalize on what it sees as unmet demand, and hopes to follow its Damascus opening with expansion into Aleppo and Lattakia before the end of 2006. Other contacts, however, say that the private insurance sector faces a number of obstacles to success despite the market's promise. Low awareness among consumers of the need for insurance may cause the market for some retail products to develop slowly. Two of the companies that decided to enter the market through a public offering had to extend their IPOs due to under-subscription, which most contacts attribute to Syrians' general lack of familiarity with the insurance industry. In addition, Syria's poor health infrastructure and lack of private hospitals outside of the metropolitan areas may depress demand for medical insurance. Further, SICO's huge dollar reserves and established relationships with reinsurance companies will allow it continue to dominate the market, contacts say, making it difficult for the small private companies with starting capital of approximately \$17 million to compete in the short term.

...Principally from the Political Leadership

14. (C) Contacts contend that the working-level head of the Syrian Insurance Commission (SIC), Abdul Latif Aboud, is well-respected and comes to the job with years of experience in the field. They add, however, that Ministry of Finance Mohammad Hussein has ultimate authority over the Commission, which is responsible for setting regulations and supervising the market, and already has interfered with negative consequences in the sector's development. Wissam Merhej, a consultant with Deloitte Syria who is the principal agent for

DAMASCUS 00002265 002 OF 002

four of the five licensed companies, stated that Hussein whimsically decided to limit Syrian private bank ownership in the new companies to five percent, in spite of the fact that the vast majority of economic reformers are involved in banking and that the sector has been lobbying for opportunities to invest its liquidity (ref). The cost of the decision was immediately obvious in the under-subscribed IPOs, but Merhej stated that the decision may have longer-term consequences in stifling obvious synergies between the sectors.

15. (C) Merhej further complained that the Ministry of Finance has forced private insurance companies to convert their hard currency into Syrian pounds (SYP) in order to help subsidize the artificially high exchange rate. Bechara, whose company had 75% of its starting capital in dollars, said that the Ministry promised him privileged access to foreign exchange when the company wants to repatriate profits or settle claims. He acknowledged, however, that the authority to approve the exchange transaction ultimately rests with the Ministry and the Central Bank, effectively holding his capital hostage to the SARG's capricious economic decision making.

15. (C) Comment: Undeniably, the opening of the insurance sector is another potentially important, albeit tentative, step forward. As many Syrians are fond of saying, each new advance- no matter how limited- makes it harder for the SARG to reverse its economic reforms. The way that the sector is developing, however, is indicative of the SARG's overall economic reform efforts to date. The Ministry of Finance maintains heavy-handed control over the reform process, and its policies are geared to benefit the regime elite and not further the sector's development. The policy requiring companies to convert their capital into SYP at the artificially high exchange of 50 SYP/dollar enriches the insiders who converted their dollars into SYP last December at 60 SYP/dollar, while encumbering the new companies with a potential exchange loss. Companies are showing, however, that the promises of a virgin market are strong enough to counterbalance the losses and policy barriers in the

short-term.
SECHE